



China's 14th Five-Year Plan: Regional Development

By Sarah Y TONG

Regional development stands out as one major component of China's recently released 14th Five-Year Plan (FYP) titled, "Outline of the Fourteen Five-Year Programme for the National Economic and Social Development and the Long-term Goals for 2035 of the People's Republic of China" (hereafter the *Outline*).¹ Indeed, policies concerning regional development form an integral part of China's overall development agenda. They are important instruments in the government's efforts to shift strategies and redirect priorities as the economy expands and modernises. In the latest *Outline*, the strong emphasis on and reorientation in the development of the Guangdong-Hong Kong-Macau Greater Bay Area (GBA)² and the Yangtze River Delta (YRD)³ region highlight a strategy centred on advances in scientific and technology and innovation for China's long-term sustainable development.

REGIONAL POLICIES SERVE MULTIPLE OBJECTIVES

Under China's multi-layer, top-down and regionally separated administrative structure, regional development policies enjoy certain advantages, including flexibility and better risk management. As such, various and continuously evolving regional policies have been applied to help carry out the government's economic agenda.

First is to test out new initiatives. The most obvious example is the setting up of special economic zones in the early 1980s to kick-start China's economic opening. Second is to signal

¹ http://www.xinhuanet.com/2021-03/13/c_1127205564.htm, accessed 13 March 2021.

² The Guangdong-Hong Kong-Macau Greater Bay Area consists of nine cities of Guangdong Province, Guangzhou, Shenzhen, Zhuhai, Foshan, Dongguan, Zhongshan, Jiangmen, Huizhou and Zhaoqing, and two special administrative regions of Hong Kong and Macau in South China.

³ The Yangtze River Delta covers China's four provincial level administrative regions, namely, Shanghai Municipality and the provinces of Jiangsu, Zhejiang and Anhui.

and perform policy re-orientation. During the early years of economic reform and opening, policies favouring coastal region signified a strongly outward-oriented development view. In the early 2000s, the initiation of the Go West strategy indicated an inclination towards more balanced regional development. Third is to facilitate targeted implementation in combination with other development policies. For example, to facilitate the Rise of China's Central Region, the 11th FYP, issued in 2006, asserted its support for "Shanxi, Henan, and Anhui Provinces to strengthen the construction of large coal bases, ..., to speed up the structural upgrading of the region's iron and steel, chemical industry, ..., and to support the development of various equipment manufacturing industries in the region".⁴ Indeed, differentiated regional development policies are important for China, a large, diverse and rapidly changing economy. From a political economy's perspective, regional policies will incentivise regional government officials to promote local development, strive for favourable policies from the central government and enhance their career prospects.

The setting up of zones has been commonly deployed as regional development initiatives. Examples include the SEZs (Special Economic Zones) in the 1980s to the Pilot Free Trade Zones today. There are also numerous zones for "comprehensive reform" and zones for the development of high-tech industries. Meanwhile, policy measures have gradually shifted, from direct support, such as cheap land and government investment, to more indirect policy support, such as tax benefit for innovative activities.

RENEWED DEVELOPMENT PRIORITIES DICTATE REGIONAL INITIATIVE

Regional development policies will remain an essential part of China's policy agenda, while being directed by the government's overarching strategy. From the latest *Outline*, several features of China's development strategies for the coming decade, with varying impact on regional policies could be identified.

Technological advancement and innovation the top priority

The most important is the commitment to transform the economy into one driven by technological advances and innovation. This priority is set to exert the strongest and most direct impact on China's regional development policies in the coming years. The importance of this section on innovation-driven development (Section II) is evidenced by the fact that it follows immediately after the Introduction section that lays out the overall principle and main objectives.

Moreover, the first chapter of Section II identifies the "building of major technological innovation platforms" as key paths to strengthen China's S&T capability. It further specifies that the government will "support the formation of international science and technology innovation centres in Beijing, Shanghai and GBA; and the building of Comprehensive National Science Centres in Beijing's Huairou district, Shanghai's Zhangjiang High-tech Park, GBA and Anhui's Hefei city". These establish the central importance of the three mega regions in China's overall regional development landscape.

The chapter also asserts that the government will "support the construction of regional science and technology innovation centres where conditions permit", and "strengthen innovative capabilities in existing zones such as national demonstration zones for indigenous innovation, high-tech industrial development zones, and economic and technological development zones".

⁴ http://www.gov.cn/gongbao/content/2006/content_268766.htm, accessed 16 March 2021.

To “domesticate” production and supply chains a complementary goal

The second development priority is to accelerate industrial modernisation and reinforce the foundation of the real economy (Section III of the *Outline*). In essence, it is an effort to incorporate advances in S&T and innovation into economic activities, while reducing the risks associated with an over-dependence on external sources. From the perspective of the dual circulation strategy, this industrial modernisation strongly suggests the “domestication” of supply and production chains, or the lengthening of the domestic segments of supply chains.

While largely an industrial policy by nature, it is also reflected in certain regional development programmes. For example, on enhancing manufacturing’s core competitiveness, the plan envisages the setting up of a heavy-duty gas turbine experimental power station in Shanghai.⁵ More broadly, the plan aims to “optimise the layout of regional industrial chains by guiding the key links of industrial chains to remain in the country and strengthening the ability of the Central, Western and Northeastern regions to undertake relocated industries”.

A strong and modern infrastructure system is considered significant to supporting China’s strive to become an industrial power. As a result, many new types of infrastructure are specified for future development, including a “project to improve the basic (internet) networks in small and medium-sized cities in the Central and Western regions”. The *Outline* also includes an extensive list of projects⁶ that aims to make China a great power in transportation, such as high-speed rail, transit rail for metropolises and urban clusters, highways, ports, modern airports and integrated transportation and logistics hubs. While many regions across the country are included in the list, the three mega regions again stand out, especially in the construction of transit rails, ports and modern airports.

New approach to urbanisation a push for stronger domestic demand

Further urbanisation is another development strategy discussed extensively in the *Outline*, which will have significant implications for China’s regional development. Relying on the development of city clusters and metropolitan areas, the new approach to urbanisation aims to promote coordinated, inter-linked and specialised development across cities of different sizes. Hence, the goal is to achieve an urbanisation with a much broader coverage and well-developed urban clusters as the foundation. This is also important for enhancing domestic demand, another key link in the dual circulation strategy.

The *Outline* identifies a strategy of “two horizontals and three verticals” for urban agglomeration, under which five urban clusters are the first to be singled out for upgrading, including the Jing-Jin-Ji region, YRD, Pearl River Delta, Chengdu-Chongqing and that of the middle reaches of the Yangtze River. A second and a third batch of city clusters have also been specified for expansion and improvement. The *Outline* also encourages continued experiment on integrated rural-urban development in over a dozen national-level pilot zones.

Besides promoting the three strategies, advancing S&T and innovation, strengthening of domestic elements of supply chains and renewing the push for urbanisation, two policy features are worth noting, though their impact on regional development is less striking. One is the *Outline*’s strong emphasis on environmental protection and green development where numerous mega projects for ecosystem protection and restoration that nearly cover China’s entire land mass are highlighted. The other is the reaffirmation of China’s continued economic

⁵ Refer to the *Outline*’s “Special Column 4: Enhancement of Manufacturing’s Core Competitiveness”.

⁶ Refer to the *Outline*’s “Special Column 5: Projects for Building a Great Power in Transportation”.

opening. Aside from restating existing policies, experiments and further opening of inland regions, the *Outline* offers no new initiatives.

ANYTHING NEW IN CHINA'S REGIONAL DEVELOPMENT STRATEGY?

While the language in the *Outline* sounds extremely familiar, two things are somewhat new. First, there is a clearer commitment to a functional region development strategy based on respective regions' comparative advantages and reliance on the economic dynamism of urban clusters. Fundamentally, this remains an unbalanced regional development. Second, this metropolitan areas-driven regional development strategy is linked directly to the *Outline*'s predominant priority of promoting S&T and innovation.

Indeed, the *Outline* recognises three urban clusters, the Jing-Jin-Ji, YRD and GBA, as focal points to enhance China's ability to innovate and take a lead in high-quality development.

Further, the *Outline* itemises important tasks for the three major metropolitan areas for the coming years and technological advancement-related projects are featured highly. For the Jing-Jin-Ji region, an important undertaking is "to improve the capabilities in basic research and original innovation of the Beijing S&T Innovation Centre, to give play to the pioneering role of the Zhongguancun National Indigenous Innovation Demonstration Zone, and to promote further integration of industrial and innovation chains among the three".

Such an emphasis on S&T and innovation is even more pronounced in the planning for the GBA and YRD. On the GBA, the *Outline* specifies a number of major projects, including to strengthen coordination in industry-university-research among Guangdong, Hong Kong and Macau; improve the "two corridors and two points" framework;⁷ promote the construction of a comprehensive national science centre; and facilitate the cross-border flow of factors for innovation. Similarly, the major tasks for YRD are innovation related, including attaining internationally advanced science and innovation capabilities and an industrial system, accelerating the construction of YRD's G60 Science and Technology Innovation Corridor and industrial innovation belt along Shanghai-Nanjing, and improving YRD's ability to utilise global resources and drive growth of the country.

In addition to the apparent strong emphasis on major metropolitan areas, two other features on regional development of the *Outline* are noteworthy. The first is to enhance the protective capacities of non-urban areas, including agriculture, ecological protection, energy and border areas. The other is the reiteration of the importance of coordinated regional development, albeit with limited specifics given on how this can be achieved.

PROSPECTS OF MAJOR REGIONS

Evidently, the three mega metropolises along the coast are expected to serve as main engines for China's innovation driven growth for the coming decades, while manufacturing capability and activities are to be shifted westwards. To understand the prospects of respective regions in China's regional development design, a comparison of their importance to the national economy, both at present and in the future, is needed.

Table 1 provides a crude comparison of the relative economic significance, growth momentum and innovation potential of major regions. Of the three major metropolitan areas, the YRD

⁷ The "two corridors and two points" framework refers to the Guangzhou-Shenzhen-Hong Kong S&T Innovation Corridor, Guangzhou-Zhuhai-Macao S&T Innovation Corridor, Shenzhen-Hong Kong Innovation Polar Point and Guangdong-Macau Hengqin Innovation Polar Point.

region is the most important as it offers the strongest potential for innovative activities in terms of shares in the national total and in the rapid increase between the two decades listed in the table. Meanwhile, the size of the economy and the R&D resources of Guangdong have amounted to about half those of the YRD, after having made considerable expansion over the two decades. If the two special administrative regions of Hong Kong and Macau are included, the combined capacity of GBA will be strongly enhanced. It is therefore rational and desirable to place strong emphases in these two regions to drive China's future growth.

TABLE 1 SHARES OF REGIONS IN POPULATION, OUTPUT, AND R&D PERSONNEL AND EXPENDITURES (%)

	GDP		R&D				Population
			Personnel		Expenditure		
	1997	2019	1999	2019	1999	2019	2019
Major urban clusters in Eastern Region							
JJJ	9.2	8.6	17.3	10.8	22.0	14.7	8.1%
YRD	22.7	24.0	17.8	32.2	17.8	30.4	16.2
Guangdong	10.2	11.0	6.2	16.7	9.7	14.0	8.2
Central, Western and Northeast regions							
Central	20.1	22.1	17.5	17.8	12.0	17.5	26.5
Western	18.3	20.9	23.4	12.7	14.4	12.9	27.2
Northeast	9.8	5.1	11.9	3.9	7.7	3.6	7.7
YREB	41.9	46.4	37.9	48.9	32.4	47.7	42.9
Anhui*	3.3	3.8	2.4	3.7	1.7	3.4	4.5
CQ-SC	6.3	7.1	8.7	5.6	6.2	6.1	8.2

Note: JJJ: Beijing-Tianjin-Hebei, YRD: Yangtze River Delta, YREB: Yangtze River Economic Belt, CQ-SC: Chongqing-Sichuan. * - Anhui province is one of the six provinces in the Central Region. Since the mid-2010s, major cities in Anhui have been included in urban cluster development for the YRD region. In late 2019, the province became a part of the "Outline for Integrated Development of the YRD Region".

Source: calculated by the author based on figures from CEIC Data Manager.

In contrast, the relative significance of the Jing-Jin-Ji region has declined, especially in terms of innovation capacity measured by R&D personnel and expenditure. This suggests that integrated development in the region has been far from being successful. While Beijing has indeed made advancement in these measures, it is at the expense of Tianjin and especially Hebei. Nonetheless, the region is expected to continue to receive policy attention with Beijing being the capital city. Whether significant progress in cooperation and integration could take place after relieving "Beijing from non-capital functions, to promote administrative reforms in Xiong'an New Area, etc" remains to be seen.

Overall, coastal regions remain essential, due to their significance and momentum in economic and innovative activities as well as potential for consumption increases. Central provinces have also demonstrated their growing strength in China's overall economic landscape, benefitting from their close proximity to and development gaps with the coastal regions. They also enjoy solid foundations in industries and well-developed infrastructure. Anhui province's robust performance in recent years is a good example.

The western region achieved a modest gain in overall output but fared poorly in R&D-related measures compared to the coastal and central regions, nearly two decades after the government

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initiated the Go West campaign. There is a clear lag in innovative resources, given that the region's shares in R&D personnel and expenditure were less than half of its population share. Nonetheless, several regions including the Chongqing-Sichuan and Shaanxi province, where strong urban clusters are forming, have held up relatively well. Among China's four super-regions, namely, Eastern, Central, Western and Northeastern, the Northeast region is the least promising. Indeed, the region's revitalisation is seriously hampered by legacy issues such as state-owned enterprises' past dominance, an outdated heavy industry and local governments' rapidly deteriorating indebtedness.⁸ For this region, the *Outline* has not provided any clear pathway for the future.

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⁸ In 2019, the combined budget deficit of the three Northwestern provinces amounted to 192% of their combined revenue, up from 115% in 2010. The figures for the 12 provinces in the western region, another debt-stricken region, were 203% (2019) and 172% (2010), respectively (source: calculated by author based on data from CEIC Data Manager).